



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
KNOTT COUNTY SHERIFF**

Calendar Year 1997

**EDWARD B. HATCHETT, JR.
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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Sarah Jane Schaaf, Secretary, Revenue Cabinet
Honorable Donnie Newsome, County Judge/Executive
Honorable Wheeler Jacobs, Knott County Sheriff
Members of the Knott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the Sheriff of Knott County, Kentucky, for the year ended December 31, 1997. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Sheriff for the year ended December 31, 1997, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Sarah Jane Schaaf, Secretary, Revenue Cabinet
Honorable Donnie Newsome, County Judge/Executive
Honorable Wheeler Jacobs, Knott County Sheriff
Members of the Knott County Fiscal Court

Based on the results of our audit, we have presented Comments and Recommendations, included herein, which discuss the following areas of noncompliance:

- The Sheriff Should Have A Written Agreement To Protect Deposits
- Former Sheriff James Amburgey Should Eliminate The Deficits In His 1990, 1992, and 1993 Official Fee Accounts
- Former Sheriff James Amburgey Should Pay Excess Fees For Calendar Years 1991 and 1993

Sheriff Jacobs paid \$147,444 of excess fees to the fiscal court for the year ended December 31, 1997. He does not owe any additional excess fees for calendar year 1997.

In accordance with Government Auditing Standards, we have also issued a report dated June 3, 1999, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 3, 1999

KNOTT COUNTY
WHEELER JACOBS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1997

Receipts

Federal Grants:

Lake Patrol	\$ 16,750	
Police Hiring Supplemental Grant	<u>28,745</u>	\$ 45,495

State Grants:

Carr Creek State Park-		
Law Enforcement Grant	\$ 7,650	
Marijuana Eradication Grant	<u>3,767</u>	11,417

State Fees For Services:

Finance and Administration Cabinet		6,668
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Circuit Court Clerk:

Sheriff Security Service	\$ 11,023	
Fines and Fees Collected	<u>21,978</u>	33,001

Fiscal Court

232,591

County Clerk - Delinquent Taxes

6,140

Commission On Taxes Collected

144,480

Fees Collected For Services:

Auto Inspections	\$ 2,595	
Serving Papers	4,880	
Warrants and Executions	1,870	
Carrying Concealed Deadly Weapons Permits	<u>6,120</u>	15,465

Other Services:

Transporting Mental Patients	\$ 5,150	
School - Drug Abuse Resistance Program	20,000	
Court Ordered Collections	2,168	
Refunds	521	
Miscellaneous	<u>2,492</u>	30,331

Interest Earned

8,047

Gross Receipts (Carried Forward)

\$ 533,635

The accompanying notes are an integral part of the financial statement.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1997

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to Kentucky Revised Statute (KRS) 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent. Hazardous covered employees are required to contribute 7.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.69 percent.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1997
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The depository institution has made such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the Sheriff.

Note 4. Grant

In 1996, the Sheriff was awarded a grant under the Police Hiring Supplement Program from the Department of Justice in the amount of \$197,144 to be expended over three years. During calendar year 1997, the Sheriff received and spent funds totaling \$28,745. There was a zero balance as of December 31, 1997.

COMMENTS AND RECOMMENDATIONS

KNOTT COUNTY
WHEELER JACOBS, SHERIFF
COMMENTS AND RECOMMENDATIONS

Calendar Year 1997

STATE LAWS AND REGULATIONS:

The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The Sheriff had a bank balance of \$2,178,858; FDIC insurance of \$200,000; and securities pledged of \$2,150,000 as of December 11, 1997. Even though the Sheriff obtained pledged securities of \$2,150,000, the pledge was not evidenced by a written agreement. We recommend the Sheriff enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

This was corrected in August 1998.

PRIOR YEAR AUDIT FINDINGS:

In our prior year audit we reported the following items. These items have not been corrected.

1. Former Sheriff James Amburgey Should Eliminate The Deficits In His 1990, 1992, And 1993 Official Fee Accounts

The former Sheriff James Amburgey, should eliminate the deficits in his 1990, 1992, and 1993 official fee accounts. Former Sheriff Amburgey has a total deficit of \$28,097 in the accounts as follows:

1990 Fee Account	\$ 4,887
1992 Fee Account	22,133
1993 Fee Account	<u>1,077</u>
 Total Deficit	 <u><u>\$ 28,097</u></u>

The 1990 deficit resulted from expenditures in the amount of \$4,896 for interest expense, which was disallowed, less \$9 paid by the former Sheriff.

KNOTT COUNTY
WHEELER JACOBS, SHERIFF
SCHEDULE OF COMMENTS AND RECOMMENDATIONS
CALENDAR YEAR 1997
(Continued)

1. Former Sheriff James Amburgey Should Eliminate The Deficits In His 1990, 1992, And 1993 Official Fee Accounts (Continued)

The 1992 deficit resulted from former Sheriff James Amburgey receiving salary in excess of net receipts in the amount of \$21,770 and disallowed expenditures totaling \$363. KRS 64.535 states, in part, that the sheriff shall receive a salary solely out of the fees received during the calendar year. After expenses were paid, net receipts of \$18,657 remained to pay former Sheriff James Amburgey's salary. The former Sheriff received a total of \$40,427 in salary for calendar year 1992. Therefore, he received a salary overpayment in the amount of \$21,770.

The 1993 deficit resulted from the former Sheriff receiving salary in excess of the statutory maximum in the amount of \$30 and disallowed expenditures totaling \$2,013, less personal funds paid by the former Sheriff in the amount of \$500 on July 6, 1993 and \$466 on January 1, 1994. We recommend former Sheriff Amburgey deposit personal funds in the amount of \$28,097 to eliminate these deficits.

We remind the fiscal court of their responsibilities under KRS 64.820(1) to collect any amount due the county from county officials if the amount can be collected without suit, or under KRS 64.820(2) which directs the County Attorney to institute suit for the amount reported as due the county. We recommend the fiscal court take appropriate action required to collect the amounts due from former Sheriff Amburgey.

2. Former Sheriff James Amburgey Should Pay Excess Fees For Calendar Years 1991 And 1993

Former Sheriff James Amburgey owes excess fees of \$18,633 for calendar year 1991 and excess fees of \$16,223 for calendar year 1993 as reported in previous audit reports. These excess fee amounts were included when determining the former Sheriff's deficits. KRS 134.310 requires the Sheriff to settle excess fees annually with the fiscal court. Furthermore, KRS 64.830(2) requires each outgoing official to make a settlement with the fiscal court by March 15th immediately following the expiration of their term. Excess fees for calendar years 1991 and 1993 have not been paid. We recommend former Sheriff Amburgey pay excess fees of \$18,633 to the fiscal court for calendar year 1991 and \$16,223 for calendar year 1993.

We remind the fiscal court of their responsibilities under KRS 64.820(1) to collect any amount due the county from county officials if the amount can be collected without suit, or under KRS 64.820(2) which directs the County Attorney to institute suit for the amount reported as due the county. We recommend the fiscal court take appropriate action required to collect the amounts due from former Sheriff Amburgey. As explained in our 1996 former Sheriff's fee report, this matter has been referred to the Attorney General for further action if warranted.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Donnie Newsome, County Judge/Executive
Honorable Wheeler Jacobs, Knott County Sheriff
Members of the Knott County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Knott County Sheriff as of December 31, 1997, and have issued our report thereon dated June 3, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Knott County Sheriff's financial statement as of December 31, 1997, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Knott County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Donnie Newsome, County Judge/Executive
Honorable Wheeler Jacobs, Knott County Sheriff
Members of the Knott County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 3, 1999

